

Internal Revenue Service

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Department of the Treasury
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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:INTL:B03
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Date:
September 16, 2015

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TY:

Corp X =

Year 1 =

Corp Y =

Year 2 =

Date 1 =

Corp Z =

Date 2 =

Date 3 =

Dear :

This is in response to your representative's letter dated August 19, 2015, requesting a ruling that Corp X and its subsidiaries be permitted to change from the fair market value method to the tax book value method of asset valuation for purposes of apportioning interest expense.

The rulings contained in this letter are based upon information and representations submitted by Corp X and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Corp X, a domestic corporation, is a calendar year taxpayer that uses the accrual method as its overall method of accounting. Corp X is the common parent of a group of affiliated corporations that files a consolidated U.S. federal income tax return. Corp X has used the fair market value method of asset valuation for several years beginning with Year 1. At that time, Corp X was owned by Corp Y which had numerous other subsidiaries. Because of Corp Y's ownership of Corp X, Corp X was required by Temp.

Treas. Reg. §1.861-8T(c)(2) to conform its method to that used by Corp Y and its related entities.

In Year 2, several years after Year 1, Corp Y sold Corp X. On Date 1, in a year several years after Year 2, Corp X was again sold. The acquisition was effectuated through Corp Z formed solely to acquire Corp X and its affiliated corporations. As a result of the acquisition, Corp X will file a final U.S. consolidated income tax return for the short tax year ended on Date 2 and will be included as part of Corp Z's first consolidated return filed for the short tax period ended on Date 3.

Corp X wishes to change to the tax book value method for its short taxable year ending Date 2 to decrease complexity and reduce costs by avoiding the need to have fair market value studies prepared.

Section 864(e) provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income. Treas. Reg. §§1.861-8 through 1.861-12 and Temp. Treas. Reg. §§1.861-8T through 1.861-13T set forth the rules specific to the allocation and apportionment of interest expense. Temp. Treas. Reg. §1.861-9T(g)(1)(ii) provides that a taxpayer may elect to determine the value of its assets on the basis of either tax book value or the fair market value of its assets. Temp. Treas. Reg. §1.861-8T(c)(2) provides that, once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Based solely on the information submitted and the representations made, Corp X may use the tax book value method of assets valuation for purposes of apportioning interest expense, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for its short taxable year ending on Date 2 and all subsequent taxable years and for all operative sections, including sections 199 and 904 of the Code, pursuant to Treas. Reg. §1.861-8(f)(2). Pursuant to Temp. Treas. Reg. §1.861-8T(c)(2), all members of the Corp Z consolidated group will be required to use the tax book value method of assets valuation should Corp X use the tax book value method.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to Corp X. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, if Corp X files its return electronically it may satisfy this requirement by attaching a statement to its return that provides the date and control number of the letter ruling.

Sincerely,

Richard L. Chewning
Senior Counsel, Branch 3
Office of Associate Chief Counsel
(International)

cc: